

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 L-03 EA-07 /051 W

----- 117822

P 090930Z FEB 76

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC PRIORITY 7666

C O N F I D E N T I A L SECTION 1 OF 2 NAIROBI 1248

FROM J. WILLIAMS

E.O. 11692: GDS

TAGS: EAGR, KE

SUBJECT: COTTON CONTRACT PROBLEM

1. TEXT OF TELEGRAM CONTAINED PARAS 2-8 BELOW SHOULD BE CLEARED BY EB/ORF/FTD WITH APPROPRIATE OFFICES AND AGENCIES IN WASHINGTON BEFORE BEING TRANSMITTED TO EMBASSY TAIPEI FOR ACTION.
DURING VISIT TO WASHINGTON
SEVERAL MONTHS AGO, ROC MINISTER OF FINANCE PROMISED TO REVIEW PROBLEM AND PROVIDE STATUS REPORT WHICH HAS NEVER BEEN RECEIVED. FTD MAY WISH TO REFER SPECIFICALLY TO THIS PROMISE IN BODY OF TELEGRAM AFTER VERIFYING MINISTER'S COMMITMENT IN MEMCON.

2. U.S. COTTON EXPORTERS CONTINUE TO APPLY PRESSURE TO OBTAIN OPENING OF OVERDUE LETTERS OF CREDIT (L/C'S) FOR COTTON CONTRACTS COVERED BY "LETTER OF ASSURANCES" PROVIDED BY GROC. L/C'S REAMIN UNOPENED ON 43,900 BALES CONTRACTED BY 17 MILLS. ALTHOUGH HIGH GROC OFFICIALS HAVE REAFFIRMED COMMITMENT TO ASSURANCES ON SEVERAL OCCASIONS, SOME MILLS HAVE SUCCESSFULLY RESISTED OPENING L/C'S, AND BOFT HAS SHOWN NOTABLE LACK OF ZEAL IN APPLYING PRESSURE TO
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OVERCOME THIS RESISTANCE. KOREAN MILLS HAVE NOW RPT

NOW OPENED L/C'S FOR ALL CONTRACTS COVERED BY ASSURANCES, AND WE BELIEVE IT FAIR THAT TAIWAN MILLS, WHICH ARE IN CLOSE COMPETITION WITH KOREAN MILLS FOR EXPORT MARKETS, BE EXPECTED TO DO LIKEWISE. THIS TELEGRAM ATTEMPTS TO IDENTIFY AND CATEGORIZE DELINQUENT MILLS AND TO DISCUSS EACH CATEGORY, GIVING U.S. POSITION AND RECOMMENDED ACTION.

3. (CATEGORY 8: MILLS HAVING DISPUTES WITH U.S. SHIPPERS)
(2 MILLS - 6500 BALES)

A. MILLS AND BALES INVOLVED:

FU I - 2500 BALES
YUNG LONG - 4000 BALES

B. DISCUSSION - FU I - MILL OPENED L/C CONTAINING RESTRICTIONS UNACCEPTABLE TO U.S. SHIPPER (HOHENBERG). SITUATION AND CURRENT OFFER DISCUSSED FASTO 1 OF JAN. 7, 1976. BOFT DOES NOT RPT NOT CONSIDER MILL IN DEFAULT SINCE L/C WAS OPENED.

YUNG LONG -- DISPUTE IS VERY COMPLICATED AND CONCERNS, INTER ALIA, CONTRACTS SEVERAL YEARS OLD.

C. U.S. POSITION AND RECOMMENDED ACTION: WE BELIEVE BOFT SHOULD MAKE EFFORT TO PERSUADE MILLS TO SETTLE DISPUTES

WITH SHIPPER, OR FAILING THIS, TO TAKE CONTRACT TO ARBITRATION AS SOON AS POSSIBLE. WHERE DISPUTE INVOLVES CONTRACTS NOT ON ANNEX, L/C'S FOR ANNEX COTTON SHOULD BE OPENED IMMEDIATELY. BOFT SHOULD BE URGED TO CONTACT MILLS AND PRESS FOR IMMEDIATE OPENING OF L/C'S.

4. CATEGORY II: BOFT SANCTIONS APPLIED, L/C'S NOT OPENED (4 MILLS, 13,600 BALES)

A. MILLS AND BALES INVOLVED AND DATE OF SANCTIONS:

CHEN HSING -- 1000 BALES -- OCT. 3, 1975
CHUNG FU -- 2000 BALES -- AUG. 20, 1975
FU SHIN -- 6800 BALES -- OCT. 3, 1975
JOICING -- 3800 BALES -- AUG. 20, 1975

B. DISCUSSION: BOFT SANCTIONS DENY MILL IMPORT LICENSES FOR RAW COTTON AND EXPORT LICENSES FOR TEXTILE

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Z GOODS. IT IS DIFFICULT TO UNDERSTAND HOW A TAIWAN MILL COULD OPERATE UNDER THESE CONDITIONS, YET FOUR MILLS NAMED ABOVE APPEAR TO BE DOING SO. AS A RESULT, EFFECTIVENESS AND FIRMNESS OF BOFT APPLICATION OF SANCTIONS IS CALLED INTO QUESTION. FU SHIN MAY BE SPECIAL CASE SINCE REPORTS INDICATE MILL IS CONVERTING ENTIRELY TO MAN-MADE FIBER.

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ACTION EB-07

INFO OCT-01 AF-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 L-03 EA-07 /051 W

----- 117884

P 090930Z FEB 76

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC PRIORITY 7667

C O N F I D E N T I A L SECTION 2 OF 2 NAIROBI 1248

FROM J. WILLIAMS

C. U.S. POSITION AND RECOMMENDED ACTION: WE
APPRECIATE AND SUPPORT BOFT ACTION IN LEVYING SANCTIONS.
EMBASSY SHOULD EXPRESS OUR SURPRISE AND CONCERN THAT
SANCTIONS HAVE NOT RPT NOT BEEN EFFECTIVE AND INQUIRE
WHAT FURTHER ACTION MIGHT BE NECESSARY TO INSURE
OPENING OF L/C'S.

5. CATEGORY III: NEW OWNERS, NO PENALTIES APPLIED
BY BOFT (2 MILLS, 7800 BALES).

A. MILLS AND BALES INVOLVED:

CHUNG SHING (FORMERLY LONGMORE) - 3000 BALES

WINNING (FORMERLY YANG MING) - 4800 BALES

B. US. POSITION, DISCUSSION AND RECOMMENDED ACTION:

WE BELIEVE WHEN A MILL IS SOLD LIABILITIES, E.G., CONTRACT
COMMITMENTS, ARE SOLD ALONG WITH ASSETS. THIS POSITION
HAS REPEATEDLY BEEN MADE CLEAR TO BOFT AND BOFT HAS
BEEN CONSIDERING APPLYING SANCTIONS FOR OVER TWO MONTHS.
BOFT SHOULD BE STRONGLY URGED TO APPLY SANCTIONS TO
THESE MILLS WITHOUT FURTHER DELAY.

6. CATEGORY IV: MILLS NOT OPERATING (7 MILLS, 10,230
BALES).

A. MILLS AND BALES INVOLVED:

SHIN HO -- 500 BALES

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SHING JIEN -- 2930 BALES
TA SUN -- 1000 BALES
TONG CHU -- 3000 BALES
UNITED -- 1000 BALES
YU KUO -- 1000 BALES
YU SHIAW -- 800 BALES

B. U.S. POSITION, DISCUSSION AND RECOMMENDED ACTION:

THESE CONTRACTS ARE WITHOUT DOUBT MOST CONTROVERSIAL ONES TO ANNEX AND OPENING OF L/C'S WILL BE VERY DIFFICULT TO OBTAIN. WE HAVE MAINTAINED THAT IF MILL CANNOT OPEN L/C, GROC SHOULD DO SO UNDER OBLIGATIONS GROC ASSUMED IN ASSURANCES. GROC HAS NEVER DENIED OR CONFIRMED THIS POSITION, BUT L/C'S REMAIN UNOPENED. EMBASSY SHOULD RE-STATE THIS POSITION TO BOFT, BUT BURDEN OF EMBASSY PRESSURE SHOULD FALL ON CONTRACTS LISTED IN OTHER CATEGORIES.

7. CATEGORY V: OTHER MILLS (2 MILLS, 4800 BALES)

A. MILLS AND BALES INVOLVED:

TAY I -- 2800 BALES
TRIPOD -- 2000 BALES

B. DISCUSSION: TAY I -- THIS MILL, WHICH HAD LONG

BEEN REPORTED AS NOT OPERATING, OPENED L/C FOR 8900 BALES IN JANUARY, 1976. THERE IS SOME INDICATION THAT REMAINDER OF L/C WILL BE OPENED, BUT MILL'S SITUATION AND INTENTIONS STILL REMAIN UNCLEAR.

TRIPOD: 2000 BALES LISTED ABOVE DOES NOT RPT NOT INCLUDE 2800 BALES WHICH MILL CLAIMS WERE NOT RPT NOT

BOUGHT FROM RALLI-CONY (WHO PLACED MILL ON ANNEX) BUT FROM PALMER WALL. SITUATION OF THIS 2800 BALES NEED FURTHER CLARIFICATION. REGARDING 2000 BALES LISTED ABOVE, TRIPOD HAS STATED L/C WILL BE OPENED IF COOK INDUSTRIES WILL REINSTATE TWO CANCELLED CONTRACTS. ACEA IS INVESTIGATING REQUEST.

C. REQUESTED ACTION: EMBASSY SHOULD ATTEMPT ONCE AGAIN TO CLARIFY SITUATION OF THESE TWO MILLS WHILE AT SAME TIME WE MAKE INQUIRIES WITH SHIPPERS CONCERNED.

8. REQUEST EMBASSY DISCUSS SITUATION AS DESCRIBED ABOVE WITH BOFT OFFICIALS, EXPRESSING OUR APPRECIATION FOR
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PROGRESS TO DATE, OUR DISMAY THAT WE HAVE NOT RPT NOT SUCCEEDED IN PUTTING THIS TROUBLESOME PROBLEM ENTIRELY

BEHIND US, CITING KOREAN ACCOMPLISHMENTS, AND OUR
VIVID INTEREST IN CONCLUDING THE ASSURANCES AS SOON
AS POSSIBLE. EMBASSY SHOULD ALSO DISCUSS PROBLEM
IN MORE GENERAL TERMS AT CABINET LEVEL, REQUESTING
ONCE AGAIN COMPLIANCE WITH ASSURANCES IN ACCORDANCE
WITH PAST PROMISES.
MARSHALL

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